Chapter 10 Pricing Products: Understanding and Capturing Customer Value

1) _____ is the amount of money charged for a product or service.
A) Experience curve
B) Demand curve
C) Price
D) Wage
E) Salary
Answer: C
Diff: 1 Page Ref: 290
Skill: Concept
Objective: 10-1

2) Price is the only element in the marketing mix that produces _____.
A) revenue
B) variable costs
C) expenses
D) outfixed costs
E) stability
Answer: A
Diff: 1 Page Ref: 290
Skill: Concept
Objective: 10-1

3) _____ is an important element in the marketing mix. It is the only element that does not represent costs.
A) Current profit maximization
B) Market share leadership
C) Price
D) Product quality leadership
E) The target market
Answer: C
Diff: 1 Page Ref: 290
Skill: Concept
Objective: 10-1

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4) Consumer perceptions of the product's value set the _____ for prices.
A) demand curve
B) floor
C) ceiling
D) variable cost
E) image
Answer: C
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

5) Product costs set a(n) _____ to a product's price.
A) demand curve
B) floor
C) ceiling
D) break-even cost
E) experience curve
Answer: B
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

6) Which of the following is a customer-oriented approach to pricing?
A) value-based pricing
B) sealed-bid pricing
C) break-even pricing
D) target profit pricing
E) C and D
Answer: A
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

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7) _____ uses buyers' perceptions of what a product is worth, not the seller's cost, as the key to pricing.
A) Value-based pricing
B) Value-added pricing
C) Variable cost
D) Price elasticity
E) Product image
Answer: A
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

8) In _____, price is considered along with the other marketing mix variables before the marketing program is set.
A) value-based pricing
B) cost-based pricing
C) variable costs
D) price elasticity
E) building the marketing mix
Answer: A
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

9) Value-based pricing is the reverse process of _____.
A) variable cost pricing
B) cost-plus pricing
C) cost-based pricing
D) good-value pricing
E) value-added pricing
Answer: C
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

10) With _____, price is set to match consumers' perceptions of product value.
A) variable cost pricing
B) cost-plus pricing
C) cost-based pricing
D) value-based pricing
E) every day low pricing
Answer: D
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

11) Measuring _____ can be difficult. A company might conduct surveys or experiments to test this in the different products they offer.
A) price elasticity
B) the demand curve
C) perceived value
D) break-even pricing
E) quantity supplied
Answer: C
Diff: 3 Page Ref: 292
AACSB: Communication
Skill: Concept
Objective: 10-2

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12) Underpriced products sell very well, but they produce less revenue than they would have if price were raised to the _____ level.
A) perceived
B) value-based
C) variable
D) demand curve
E) price-floor
Answer: A
Diff: 2 Page Ref: 292
Skill: Concept
Objective: 10-2

13) If a seller charges _____ than the buyer's perceived value, the company's sales will _____.
A) more; benefit
B) more; suffer
C) less; increase
D) less; suffer
E) none of the above
Answer: B
Diff: 2 Page Ref: 292
Skill: Concept
Objective: 10-2

14) Some companies have adopted a _____ strategy, offering just the right combination of quality and good service at a fair price.
A) value-based pricing
B) good-value pricing
C) cost-plus pricing
D) low-price image
E) none of the above
Answer: B
Diff: 1 Page Ref: 293
Skill: Concept
Objective: 10-2

15) Wal-Mart is famous for using what important type of value pricing?
A) competition-based pricing
B) everyday low pricing
C) cost-plus pricing
D) break-even pricing
E) penetration pricing
Answer: B
Diff: 2 Page Ref: 293
Skill: Concept
Objective: 10-2

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16) _____ involves charging a constant, everyday low price with few or no temporary price discounts.
A) High-low pricing
B) Target pricing
C) Cost-plus pricing
D) EDLP
E) Penetration pricing
Answer: D
Diff: 2 Page Ref: 293
Skill: Concept
Objective: 10-2

17) _____ involves attaching features and services to differentiate a company's offers and to support charging higher prices..
A) Break-even pricing
B) Target pricing
C) Value-added pricing
D) Cost-plus pricing
E) Pricing-down
Answer: C
Diff: 1 Page Ref: 293
Skill: Concept
Objective: 10-2

18) _____ is a company's power to escape price competition and to justify higher prices and margins.
A) Variable cost
B) Pricing power
C) Target cost
D) Fixed cost
E) Unit cost
Answer: B
Diff: 2 Page Ref: 293
Skill: Concept
Objective: 10-2

19) To maintain and increase a company's _____, a firm must retain or build the value of its marketing offer.
A) variable cost
B) pricing power
C) target cost
D) fixed cost
E) image
Answer: B
Diff: 3 Page Ref: 293
Skill: Concept
Objective: 10-2

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20) When there is price competition, many companies adopt _____ rather than cutting prices to match competitors.
A) pricing power
B) value-added strategies
C) fixed costs
D) price elasticity
E) image pricing
Answer: B
Diff: 2 Page Ref: 293
Skill: Concept
Objective: 10-2

21) Ryanair offers free flights to a quarter of its customers and rock-bottom prices to many of its other customers. Ryanair then charges for all extra services, such as baggage handling and in-flight refreshments. Which of the following best describes Ryanair's pricing method?
A) value-added pricing
B) low-cost pricing
C) cost-plus pricing
D) high-low pricing
E) image pricing
Answer: B
Diff: 2 Page Ref: 295
Skill: Concept
Objective: 10-2

22) _____ pricing involves setting prices based on the costs for producing, distributing, and selling the product plus a fair rate of return for the company's efforts and risks.
A) Value-based
B) Fixed cost
C) Cost-based
D) Variable
E) Skimming
Answer: C
Diff: 1 Page Ref: 295
Skill: Concept
Objective: 10-3

23) Fixed costs _____ as the number of units produced increases.
A) decrease
B) increase
C) divide in half
D) remain the same
E) increase at a diminishing rate
Answer: D
Diff: 2 Page Ref: 295
Skill: Concept
Objective: 10-3

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24) Costs that do not vary with production or sales level are referred to as _____.
A) fixed costs
B) variable costs
C) target costs
D) total costs
E) unit costs
Answer: A
Diff: 1 Page Ref: 295
Skill: Concept
Objective: 10-3

25) Rent, electricity and executive salaries are examples of _____.
A) fixed costs
B) variable costs
C) accumulated costs
D) total costs
E) marketing costs
Answer: A
Diff: 2 Page Ref: 295
Skill: Concept
Objective: 10-3

26) Costs that vary directly with the level of production are referred to as _____.
A) fixed costs
B) variable costs
C) target costs
D) total costs
E) unit costs
Answer: B
Diff: 1 Page Ref: 296
Skill: Concept
Objective: 10-3

27) _____ are the sum of the _____ and _____ for any given level of production.
A) Fixed costs; variable; total costs
B) Fixed costs; total; variable costs
C) Variable costs; fixed; total costs
D) Total costs; fixed; variable costs
E) Break-even costs; fixed; total costs
Answer: D
Diff: 2 Page Ref: 296
Skill: Concept
Objective: 10-3

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28) SRAC is the acronym for which concept related to costs at different levels of production?
A) strategic reasoning and costs
B) short-run accounting costs
C) short-run average cost
D) strategic rights and company
E) strategic revenues and costs
Answer: C
Diff: 2 Page Ref: 296
Skill: Concept
Objective: 10-3

29) As production workers become better organized and more familiar with equipment, the average cost per unit decreases. This is called the _____.
A) demand curve
B) experience curve
C) short-run average cost curve
D) long-run average cost curve
E) marginal utility
Answer: B
Diff: 1 Page Ref: 296
Skill: Concept
Objective: 10-3

30) With a higher volume of product, most companies can expect to _____.
A) gain economies of scale
B) become less efficient
C) see average costs increase
D) have a straight, horizontal learning curve
E) find competitors using the experience curve strategically
Answer: A
Diff: 2 Page Ref: 296
Skill: Concept
Objective: 10-3

31) The experience curve reveals that _____.
A) repetition in production lowers costs
B) repetition in production enhances efficiency
C) the average cost drops with accumulated production experience
D) A, B, and C
E) none of the above
Answer: D
Diff: 3 Page Ref: 296
Skill: Concept
Objective: 10-3

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32) When a downward-sloping experience curve exists, a company should usually _____ the selling price of that product in order to bring in higher revenues.
A) increase
B) greatly increase
C) decrease
D) not alter
E) none of the above
Answer: C
Diff: 3 Page Ref: 297
Skill: Concept
Objective: 10-3

33) Which of the following is a risk a company takes when building a strategy around the experience curve?
A) Competitors will likely not be able to meet the company's price cuts.
B) Existing technologies are likely to become more expensive as the company expands.
C) The method does not take competitors' prices into account.
D) The method may cause consumers to become frustrated with changing prices.
E) Aggressive pricing may give the product a cheap image, causing customers to lose interest.
Answer: E
Diff: 2 Page Ref: 297
Skill: Concept
Objective: 10-3

34) A company building its pricing strategy around the experience curve would be likely to _____.
A) price its products low
B) price its products high
C) engage in break-even pricing
D) all of the above
E) none of the above
Answer: A
Diff: 3 Page Ref: 297
Skill: Concept
Objective: 10-3

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35) The company designs what it considers to be a good product, totals the expenses of making the product, and sets a price that adds a standard mark-up to the cost of the product. This approach to pricing is called _____.
A) value-based pricing
B) fixed cost pricing
C) cost-plus pricing
D) variable pricing
E) skimming pricing
Answer: C
Diff: 1 Page Ref: 297
Skill: Concept
Objective: 10-3

36) Lawyers, accountants, and other professionals typically price by adding a standard markup for profit. This is known as _____.
A) variable costs
B) cost-plus pricing
C) value-based pricing
D) break-even price
E) penetration pricing
Answer: B
Diff: 2 Page Ref: 297
Skill: Concept
Objective: 10-3

37) The simplest pricing method is _____.
A) value-based pricing
B) going-rate and sealed-bid pricing
C) cost-plus pricing
D) break-even analysis
E) target profit pricing
Answer: C
Diff: 2 Page Ref: 297
Skill: Concept
Objective: 10-3

38) Which of the following is a reason why markup pricing is NOT practical?
A) Sellers earn a fair return on their investment.
B) By tying the price to cost, sellers simplify pricing.
C) When all firms in the industry use this pricing method, prices tend to be similar.
D) This method ignores demand.
E) With a standard markup, consumers know when they are being overcharged.
Answer: D
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

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39) One reason _____ remains popular is that sellers are more certain about costs than about demand.
A) markup pricing
B) variable pricing
C) inelasticity pricing
D) elasticity pricing
E) penetration pricing
Answer: A
Diff: 2 Page Ref: 298
Skill: Concept
Objective: 10-3

40) Price competition is minimized when all firms in an industry use which pricing method?
A) variable pricing
B) markup pricing
C) elasticity pricing
D) value-added pricing
E) value-based pricing
Answer: B
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

41) Many people feel that _____ pricing is fairer to both buyers and sellers. Sellers earn a fair return on their investment but do not take advantage of buyers when buyers' demand becomes great.
A) variable
B) markup
C) elasticity
D) inelasticity
E) penetration
Answer: B
Diff: 2 Page Ref: 298
AACSB: Ethical Reasoning
Skill: Concept
Objective: 10-3

42) Which of the following is a cost-based approach to pricing?
A) value-based pricing
B) going-rate pricing
C) target profit pricing
D) good value pricing
E) A and C
Answer: C
Diff: 2 Page Ref: 298
Skill: Concept
Objective: 10-3

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43) Break-even pricing, or a variation called _____, is when the firm tries to determine the price at which it will break even or make the profit it is seeking.
A) competition-based pricing
B) target profit pricing
C) fixed cost pricing
D) value-based pricing
E) customer-based pricing
Answer: B
Diff: 1 Page Ref: 298
Skill: Concept
Objective: 10-3

44) Target profit pricing uses the concept of a _____, which shows the total cost and total revenue expected at different sales volume levels.
A) value-based chart
B) break-even chart
C) competition-based chart
D) demand-curve
E) unit cost
Answer: B
Diff: 2 Page Ref: 298
Skill: Concept
Objective: 10-3

45) The break-even volume is the point at which _____.
A) the total revenue and total costs lines intersect
B) demand equals supply
C) the production of one more unit will not increase profit
D) the company can pay all of its long-term debt
E) a firm's profit goal is reached
Answer: A
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

46) _____ pricing works only if that price actually brings in the expected level of sales.
A) Elasticity
B) Markup
C) Variable
D) Inelasticity
E) Target profit
Answer: E
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

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47) Which of the following statements about break-even analysis is true?
A) It is used to determine how much production experience a company must have to achieve desired efficiencies.
B) It is a technique used to calculate fixed costs.
C) It determines the amount of retained earnings a company will have during an accounting period.
D) It is a technique marketers use to examine the relationship between supply and demand.
E) It is calculated using variable costs, the unit price, and fixed costs.
Answer: E
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

48) As a manufacturer increases price, the _____ drops.
A) target
B) break-even volume
C) cost-plus pricing
D) total cost
E) sales
Answer: B
Diff: 3 Page Ref: 299
Skill: Concept
Objective: 10-3

49) Which of the following is an external factor that affects pricing decisions?
A) the salaries of production management
B) competition
C) the salaries of finance management
D) funds expensed to clean production equipment
E) A, B, and C
Answer: B
Diff: 1 Page Ref: 299
Skill: Concept
Objective: 10-4

50) _____ that influence pricing decisions include the nature of the market and demand and competitors' prices.
A) Internal factors
B) Elasticity factors
C) External factors
D) Target factors
E) Domestic factors
Answer: C
Diff: 2 Page Ref: 299
Skill: Concept
Objective: 10-4

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51) Companies may set prices low for which of the following reasons EXCEPT _____.
A) to prevent competition from entering the market
B) to stabilize the market
C) to create excitement for a product
D) to prepare for an easy exit from a market
E) to match a competitor
Answer: D
Diff: 2 Page Ref: 299
Skill: Concept
Objective: 10-4

52) In order to form a consistent and effective integrated marketing program, price decisions should be coordinated with each of the following EXCEPT _____.
A) product design
B) distribution
C) competitors' prices
D) promotion decisions
E) marketing objectives
Answer: C
Diff: 2 Page Ref: 299
Skill: Concept
Objective: 10-4

53) With target costing, marketers will first _____ and then _____.
A) build the marketing mix; identify the target market
B) identify the target market; build the marketing mix
C) design the product; determine its cost
D) use skimming pricing; penetrating pricing
E) determine a selling price; target costs to ensure that the price is met
Answer: E
Diff: 2 Page Ref: 300
Skill: Concept
Objective: 10-4

54) Price setting is usually determined by _____ in small companies.
A) top management
B) marketing departments
C) sales departments
D) divisional managers
E) cross-functional teams
Answer: A
Diff: 2 Page Ref: 300
Skill: Concept
Objective: 10-4

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55) Price setting is usually determined by _____ in large companies.
A) top management
B) divisional managers
C) product line managers
D) pricing departments
E) both B and C
Answer: E
Diff: 2 Page Ref: 300
Skill: Concept
Objective: 10-4

56) In industrial markets, _____ typically has the final say in setting the pricing objectives and policies of a company.
A) the sales manager
B) top management
C) the production manager
D) the finance manager
E) the pricing department
Answer: B
Diff: 2 Page Ref: 300
Skill: Concept
Objective: 10-4

57) In industries in which pricing is a key factor, _____ often set the best prices or help others in setting them.
A) sales managers
B) top managers
C) production managers
D) finance managers
E) pricing departments
Answer: E
Diff: 2 Page Ref: 300
Skill: Concept
Objective: 10-4

58) Under _____, the market consists of many buyers and sellers trading in a uniform commodity such as wheat, copper, or financial securities.
A) pure competition
B) monopolistic competition
C) oligopolistic competition
D) a pure monopoly
E) anti-trust agreements
Answer: A
Diff: 2 Page Ref: 302
Skill: Concept
Objective: 10-4

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59) Under _____, the market consists of many buyers and sellers who trade over a range of prices rather than a single market price.
A) pure competition
B) monopolistic competition
C) oligopolistic competition
D) pure monopoly
E) socialism
Answer: B
Diff: 2 Page Ref: 302
Skill: Concept
Objective: 10-4

60) Under _____, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies.
A) pure competition
B) monopolistic competition
C) oligopolistic competition
D) pure monopoly
E) capitalism
Answer: C
Diff: 2 Page Ref: 302
Skill: Concept
Objective: 10-4

61) Nonregulated monopolies are free to price at what the market will bear. However, they do not always charge the full price for a number of reasons. What is NOT one of those reasons?
A) They don't want to attract competition.
B) They want to penetrate the market faster with a low price.
C) They have a fear of government regulation.
D) They want to encourage government regulations.
E) They want to please a large group of consumers.
Answer: D
Diff: 3 Page Ref: 303
Skill: Concept
Objective: 10-4

62) The relationship between the price charged and the resulting demand level can be shown as the _____.
A) demand curve
B) variable cost
C) target cost
D) break-even pricing
E) experience curve
Answer: A
Diff: 1 Page Ref: 303
Skill: Concept
Objective: 10-4

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63) Consumers usually perceive higher-priced products as _____.
A) out of reach for most people
B) having high quality
C) having high profit margins
D) having cost-based prices
E) being in the introductory stage of the product life cycle
Answer: B
Diff: 3 Page Ref: 303
Skill: Concept
Objective: 10-4

64) Why do marketers consider prestige goods to be an exception to the typical demand curve?
A) The demand curve for prestige goods slopes downward and to the right.
B) Increasing the price of prestige goods can make them seem more desirable.
C) Demand for prestige goods often is greater than supply.
D) Prestige products such as diamonds, sapphires, and emeralds are nonrenewable resources.
E) Customers are more aware of any price changes to prestige goods.
Answer: B
Diff: 3 Page Ref: 303
Skill: Concept
Objective: 10-4

65) Which of the following is true about the demand curve?
A) It is used to illustrate the effect of price on the quantity supplied.
B) It is always graphically depicted by a straight line.
C) It shows the quantity of product customers will buy in a market during a period of time even if other factors change.
D) It usually slopes upward and to the right.
E) It shows the relationship between product demand and product price.
Answer: E
Diff: 3 Page Ref: 303
Skill: Concept
Objective: 10-4

66) When Gibson Guitar Corporation, long known for its high quality instruments, lowered its prices to compete more effectively with Japanese rivals, the company sold fewer guitars. Which of the following best explains this?
A) The Gibson guitars were not as well made as the Japanese guitars.
B) The market was already flooded with guitars.
C) The sound of the Gibson guitar was not as good as the Japanese guitars.
D) Customers did not distinguish the superiority of the Gibson guitar when it was at a lower price.
E) Customers had come to expect a higher price for a Gibson guitar.
Answer: D
Diff: 3 Page Ref: 303
Skill: Concept
Objective: 10-4

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67) _____ describes how responsive demand will be to a change in price.
A) Price elasticity
B) Break-even pricing
C) The demand curve
D) Target costing
E) Supply
Answer: A
Diff: 1 Page Ref: 304
Skill: Concept
Objective: 10-4

68) If demand hardly changes with a small change in price, we say the demand is _____.
A) variable
B) inelastic
C) value-based
D) at break-even pricing
E) market penetrating
Answer: B
Diff: 2 Page Ref: 304
Skill: Concept
Objective: 10-4

69) If demand changes greatly with a small change in price, we say the demand is _____.
A) variable
B) inelastic
C) value-based
D) elastic
E) fixed
Answer: D
Diff: 1 Page Ref: 304
Skill: Concept
Objective: 10-4

70) Price elasticity of demand is _____ divided by _____.
A) percent change in quantity demanded; percent change in price
B) demand; price
C) percent change in price; percent change in quantity demanded
D) the going price; the asking price
E) none of the above
Answer: A
Diff: 2 Page Ref: 304
Skill: Concept
Objective: 10-4

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71) Buyers are less price sensitive in all of the following situations EXCEPT _____.
A) when the product they are buying is unique
B) when the product they are buying is in high demand
C) when substitute products are hard to find
D) when the total expenditure for a product is high relative to their income
E) when the product is a specialty product
Answer: D
Diff: 2 Page Ref: 304
Skill: Concept
Objective: 10-4

72) The less _____ the demand, the _____ it pays for the seller to raise the price.
A) determined; less
B) elastic; more
C) elastic; less
D) constant; more
E) none of the above
Answer: B
Diff: 3 Page Ref: 304
Skill: Concept
Objective: 10-4

73) Each of the following economic factors can have a strong impact on a firm's pricing strategy EXCEPT _____.
A) an economic boom
B) the reseller's reaction to price changes
C) an economic recession
D) inflation
E) interest rates
Answer: B
Diff: 2 Page Ref: 305
Skill: Concept
Objective: 10-4

74) A company should set prices that will allow _____ to receive a fair profit.
A) resellers
B) producers
C) consumers
D) the elderly
E) competitors
Answer: A
Diff: 2 Page Ref: 305
Skill: Concept
Objective: 10-4

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75) When companies set prices, the government and social concerns are two _____ affecting pricing decisions.
A) external factors
B) internal factors
C) economic conditions
D) demand curves
E) temporary influences
Answer: A
Diff: 1 Page Ref: 305
Skill: Concept
Objective: 10-4

76) Amos Zook, an Amish farmer, sells organically grown produce. Often he will trade some of his produce for dairy products produced by other Amish farmers. The sum of the values that others exchange is called a _____.
A) price
B) cost-plus price
C) dynamic price
D) common value price
E) penetration price
Answer: A
Diff: 1 Page Ref: 290
AACSB: Reflective Thinking
Skill: Application
Objective: 10-1

77) Trader Joe's offers an assortment of exclusive gourmet products at impossibly low prices. These prices are not limited-time offers or special discounts. Instead, they reflect Trader Joe's _____ strategy.
A) everyday low pricing
B) cost-plus pricing
C) dynamic pricing
D) value-based pricing
E) cost-based pricing
Answer: A
Diff: 2 Page Ref: 293
AACSB: Reflective Thinking
Skill: Application
Objective: 10-2

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78) Jimmy's Hardware, an independent local retailer, is losing business to Wal-Mart. This is most likely because he cannot match Wal-Mart's pricing strategy of _____.
A) EDLP
B) EFGF
C) fixed prices
D) negotiated pricing
E) skimming pricing
Answer: A
Diff: 2 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

79) When McDonald's and other fast food restaurants offer "value menu" items at surprisingly low prices, they are using _____.
A) break-even pricing
B) target profit pricing
C) value pricing
D) cost-plus pricing
E) bundling
Answer: C
Diff: 1 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

80) Consumers who have less time and patience for watching for supermarket specials and clipping coupons would most likely prefer _____.
A) variable pricing
B) high-low pricing
C) EDLP
D) break-even pricing
E) value-based pricing
Answer: C
Diff: 3 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

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81) Xbox 360 decides to add a free subscription to XBOX magazine with every game bought in an effort to differentiate its offering from PS3 games. This is an example of _____.
A) good-value pricing
B) add-on pricing
C) product-support pricing
D) value-added pricing
E) cost-based pricing
Answer: D
Diff: 2 Page Ref: 293
AACSB: Reflective Thinking
Skill: Application
Objective: 10-2

82) The long-run average cost curve (LRAC) helps the producer understand which of the following?
A) It shows how large a business should be, to be most efficient.
B) It deals mainly with competitors' prices.
C) It deals mainly with external factors.
D) all of the above
E) none of the above
Answer: A
Diff: 2 Page Ref: 296
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

83) Assume a manufacturer with fixed costs of $100,000, a variable cost of $10, and expected sales of 50,000 units wants to earn a 20-percent markup on sales. What is the manufacturer's markup price?
A) $14
B) $15
C) $18
D) $18.50
E) none of the above
Answer: B
Diff: 3 Page Ref: 297
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

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84) General Motors prices its automobiles to achieve a 15 to 20 percent profit on its investment. This approach is called _____.
A) value-based pricing
B) going-rate pricing
C) cost-plus pricing
D) low-price image
E) target-profit pricing
Answer: E
Diff: 2 Page Ref: 298
AACSB: Reflective Thinking
Skill: Application
Objective: 10-3

85) A company faces fixed costs of $100,000 and variable costs of $8.00/unit. They plan to directly sell their product to the market for $12.00. How many units must they produce and sell to break even?
A) 20,000
B) 25,000
C) 40,000
D) 50,000
E) not enough information to calculate
Answer: B
Diff: 2 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

86) Ecstasy Pharmaceuticals faces fixed costs with their new drug of $1,000,000. The company sells the drug in bottles of 50 pills for $10.00. They estimate that they must sell 200,000 bottles to break even. What is the total cost to produce a bottle of 50 pills?
A) $2.50
B) $5.00
C) $6.00
D) $7.50
E) not enough information to calculate
Answer: B
Diff: 3 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

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87) A manufacturer is trying to determine its break-even volume. With fixed costs of $100,000, a variable cost of $10, and expected sales of 50,000 units, what should the manufacturer's unit cost be to break even?
A) $10
B) $12
C) $16
D) $20
E) none of the above
Answer: B
Diff: 3 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

88) As a manufacturer decreases price, _____ volume increases.
A) target
B) break-even
C) cost-plus pricing
D) total cost
E) sales
Answer: B
Diff: 3 Page Ref: 299
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

89) P&G surveyed the market and identified an unserved segment of electric toothbrush market. Using these results, they created Spinbrush. The unorthodox order of this marketing mix decision is an example of _____.
A) competition-based pricing
B) cost-plus pricing
C) target costing
D) value-based pricing
E) penetration pricing
Answer: C
Diff: 2 Page Ref: 300
AACSB: Reflective Thinking
Skill: Application
Objective: 10-4

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90) PoolPak produces climate-control systems for large swimming pools. The company's customers are more concerned about service support for maintaining a system than its initial price. PoolPak may use this knowledge to become more competitive through _____.
A) target costing
B) value pricing
C) cost-plus pricing
D) a nonprice position
E) skimming pricing
Answer: D
Diff: 2 Page Ref: 300
AACSB: Reflective Thinking
Skill: Application
Objective: 10-3

91) By pledging to be a leader in providing clean, renewable energy sources and developing products and services that help consumers protect the environment, Green Mountain Power competes successfully against "cheaper" brands that focus on more price-sensitive consumers.Green Mountain Power has the firm belief that even kilowatt-hours can be _____.
A) cost-plus priced
B) a demand curve
C) differentiated
D) value-based priced
E) none of the above
Answer: C
Diff: 3 Page Ref: 300
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

92) In Vin del Mar, Chile, there are a dozen stores specializing in selling the same quality of seafood products on one street. An individual store dare not charge more than the going price without the risk of losing business to the other stores that are selling the fish at a common price. This is an example of what type of market?
A) pure competition
B) monopolistic competition
C) oligopolistic competition
D) pure monopoly
E) socialist
Answer: A
Diff: 2 Page Ref: 302
AACSB: Reflective Thinking
Skill: Application
Objective: 10-4

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93) Ascot Tires has decided to decrease its prices. The company can expect that _____ for their product will increase.
A) cost-plus pricing
B) value-based pricing
C) demand
D) the experience curve
E) competition
Answer: C
Diff: 1 Page Ref: 303
AACSB: Reflective Thinking
Skill: Application
Objective: 10-4

94) If Canon Camera Company follows a high-price, high-margin strategy, what will competitors such as Nikon, Minolta, and Pentax most likely do?
A) They will go out of business.
B) They will want to compete against Canon.
C) They will advertise less.
D) They will bundle their products.
E) none of the above
Answer: B
Diff: 2 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

95) If Canon Camera Company follows a low-price, low-margin strategy for a product, what will competitors most likely do?
A) They will not be able to compete or may leave the market.
B) They will want to compete against Canon.
C) They will advertise less.
D) They will advertise more.
E) none of the above
Answer: A
Diff: 3 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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96) Companies are fortunate to have demand that is more _____ because they may be able to set higher prices.
A) elastic
B) external
C) internal
D) inelastic
E) fixed
Answer: D
Diff: 2 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

97) If demand falls by 1 percent when price is increased by 2 percent, then _____.
A) elasticity is —1/2
B) demand is inelastic
C) demand is elastic
D) buyers are not price sensitive
E) A and B
Answer: E
Diff: 3 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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Refer to the scenario below to answer the following questions.

Alden Manufacturing produces small kitchen appliances□blenders, hand mixers, and electric skillets□under the brand name First Generation. Alden attempts to target newlyweds and first-time home buyers with this brand.

In considering that most young households have limited financial resources, Alden has attempted to engage in target costing. "In doing this," Milt Alden stated, "we have better control over keeping price right in line with customers."

Alden manufactures a three-speed blender, its top seller, and a five-speed blender. The hand mixers are manufactured in two styles□a small hand-held mixer with two rotating beaters and a similar style that comes with an optional stand and attached mixing bowl. Alden's temperature-controlled skillets are manufactured in one style with three color options.

"Our product offerings are narrower," Milt Alden added, "but our line workers know each product like the back of their hands. This allows us to produce superior products while holding our prices low."

98) Milt Alden says that his line workers "know each product like the back of their hands," and that this knowledge helps the company keep its prices low. This indicates that Alden Manufacturing most likely uses which of the following strategies?
A) cost-plus pricing
B) value-based pricing
C) the experience curve
D) cost-based pricing
E) target profit pricing
Answer: C
Diff: 2 Page Ref: 296
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

99) Milt Alden uses a target costing strategy. Which of the following is he most likely to do in executing this strategy?
A) base his price on competitors' prices
B) use everyday low pricing
C) use a break-even chart to determine pricing
D) start with customer-value considerations
E) start by determining the costs of a new product
Answer: D
Diff: 2 Page Ref: 300
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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100) If Alden raises the price on the handheld mixer by 2 percent and quantity demanded falls by 10 percent what is the price elasticity of demand?
A) —5
B) —8
C) —12
D) 5
E) 12
Answer: A
Diff: 3 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

101) When faced with price competition cutting prices is often not the best answer.
Answer: TRUE
Diff: 2 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-1

102) Prices have a direct impact on a company's bottom line.
Answer: TRUE
Diff: 1 Page Ref: 290
Skill: Concept
Objective: 10-1

103) Demand and consumer value perceptions set the floor for prices.
Answer: FALSE
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

104) Product costs set a floor to the price; consumer perceptions of the product's value set the ceiling.
Answer: TRUE
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

105) Value-based pricing is being used when costs vary directly with the level of product.
Answer: FALSE
Diff: 3 Page Ref: 291
Skill: Concept
Objective: 10-2

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106) Value-based pricing uses the company's perception of value.
Answer: FALSE
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

107) Value-based pricing is the reverse of cost-based pricing.
Answer: TRUE
Diff: 2 Page Ref: 291
Skill: Concept
Objective: 10-2

108) Using value-based pricing, a marketer would not design a product and marketing program before setting the price.
Answer: TRUE
Diff: 3 Page Ref: 291
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

109) EDLP is very similar to high-low pricing.
Answer: TRUE
Diff: 2 Page Ref: 293
Skill: Concept
Objective: 10-2

110) Overhead cost is another term for fixed cost.
Answer: TRUE
Diff: 1 Page Ref: 295
Skill: Concept
Objective: 10-3

111) Cost-based pricing relies on consumer perception of value to drive pricing.
Answer: FALSE
Diff: 2 Page Ref: 295
Skill: Concept
Objective: 10-3

112) Average unit cost increases with accumulated production experience.
Answer: FALSE
Diff: 1 Page Ref: 296
Skill: Concept
Objective: 10-3

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113) An upward-sloping experience curve is beneficial for a company.
Answer: FALSE
Diff: 3 Page Ref: 297
Skill: Concept
Objective: 10-3

114) The simplest pricing method is cost-plus pricing, which involves adding a standard markup to the cost of the product.
Answer: TRUE
Diff: 2 Page Ref: 297
Skill: Concept
Objective: 10-3

115) Markup pricing is popular because prices tend to be similar and price competition is thus minimized.
Answer: TRUE
Diff: 2 Page Ref: 298
Skill: Concept
Objective: 10-3

116) Target profit pricing is used when a firm tries to determine the price at which it will break even or make the profit it is seeking.
Answer: TRUE
Diff: 3 Page Ref: 298
Skill: Concept
Objective: 10-3

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117) A break-even chart shows the total cost and total revenue expected at various sales volume levels.
Answer: TRUE
Diff: 2 Page Ref: 298
Skill: Concept
Objective: 10-3

118) Environmental elements are categorized as external factors that affect pricing decisions.
Answer: TRUE
Diff: 2 Page Ref: 299
Skill: Concept
Objective: 10-4

119) In a pure monopoly, the market consists of one seller.
Answer: TRUE
Diff: 1 Page Ref: 303
Skill: Concept
Objective: 10-4

120) Nonregulated monopolies always charge the full price because they do not fear attracting competition.
Answer: FALSE
Diff: 2 Page Ref: 303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

121) Marketers may learn a few simple rules that apply equally to all price-demand relationships.
Answer: FALSE
Diff: 2 Page Ref: 303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

122) The demand curve shows the number of units the market will buy in a given time period at different prices that might be charged. In normal cases, the higher the price, the lower the demand.
Answer: TRUE
Diff: 1 Page Ref: 303
Skill: Concept
Objective: 10-4

123) If demand changes greatly with price, we say the demand is inelastic.
Answer: FALSE
Diff: 2 Page Ref: 304
Skill: Concept
Objective: 10-4

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124) The more elastic the demand, the more it pays for the seller to raise the price.
Answer: FALSE
Diff: 2 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

125) Consumers will base their judgments of a product's value on the prices that competitors charge for similar products.
Answer: TRUE
Diff: 2 Page Ref: 304
Skill: Concept
Objective: 10-4

126) Pricing and price competition account for the number-one problem facing many marketing executives. What are some of the frequent problems that companies encounter?
Answer: The pricing environment changes at a fast pace, and value-seeking customers have put increased pricing pressure on many companies. However, companies are often too quick to reduce prices in order to get a sale rather than convincing buyers that their products are worth a higher price. A company's pricing, in addition, is often too cost-oriented rather than customer-value oriented. Companies have prices that are not revised often enough to reflect market changes. Another common problem is pricing that does not take the rest of the marketing mix into account.
Diff: 2 Page Ref: 289
AACSB: Analytic Skills
Skill: Application
Objective: 10-1

127) Discuss the importance of consumer perceptions of value and costs to setting prices.
Answer: Customer perceptions of value set the upper limit for prices, and costs set the lower limit. However, in setting prices within these limits the company must then consider other internal and external factors. Internal factors affecting pricing include the company's overall marketing strategy, objectives, and marketing mix, as well as other organizational considerations. External factors include the nature of the market and demand, competitors' strategies and prices, and other environmental factors.
Diff: 1 Page Ref: 291
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

128) Explain how break-even analysis can be used for target profit pricing.
Answer: The firm determines the price at which it will break even. The firm can also add the target profit to the fixed costs and then determine the new, "break-even point," which now includes the target profit. Pricing decisions can be made by examining where the total revenue and total cost curves intersect on a break-even chart at different price points and sales volume.
Diff: 2 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

129) Identify and define the internal factors affecting a firm's pricing decisions.
Answer: The pricing strategy is largely determined by the company's target market and positioning objectives. Pricing decisions affect and are affected by product design, distribution, and promotion decisions. Costs set the floor for the company's price, which must cover all the costs of making and selling the product, plus a fair rate of return. In order to coordinate pricing goals and decisions, management must decide who within the organization is responsible for setting price.
Diff: 2 Page Ref: 299
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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130) Compare pure competition with oligopolistic competition.
Answer: Under pure competition, the market consists of many buyers and sellers trading in a uniform commodity. No single buyer or seller has much effect on the going market price. Under oligopolistic competition, the market consists of few sellers who are highly sensitive to each other's pricing and marketing strategies. The product can be uniform or nonuniform. There are few sellers because it is difficult for new sellers to enter the market. Each seller is alert to competitors' strategies and moves.
Diff: 3 Page Ref: 302-303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

131) Compare oligopolistic competition with a pure monopoly.
Answer: Under oligopolistic competition, the market consists of a few sellers who are highly sensitive to each other's pricing and marketing strategies. There are few sellers because it is difficult for new sellers to enter the market. Under a pure monopoly, the market consists of one seller. Pricing is handled differently in each case. The seller may be a government monopoly, a private nonregulated monopoly, or a private regulated monopoly.
Diff: 3 Page Ref: 302-303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

132) Describe what a demand curve is and explain how it helps businesses.
Answer: It estimates consumer demand at different prices. In a monopoly, the demand curve shows the total market demand resulting from different prices. If the company faces competition, its demand at different prices will depend on whether competitors' prices stay constant or change with the company's own prices.
Diff: 2 Page Ref: 303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

133) What does price elasticity reveal about a product?
Answer: Price elasticity is a measure of the sensitivity of demand to changes in price. If demand hardly changes with a small change in price, we say the demand is inelastic. If demand changes greatly, we say the demand is elastic.
Diff: 1 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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134) The company must consider the impact its prices will have on resellers. Identify three ways the company can help resellers.
Answer: The company, first of all, should set prices that give resellers a fair profit. The company should also encourage their support. Finally, the company should help resellers to sell the product effectively.
Diff: 1 Page Ref: 305
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

135) When setting prices, the company must consider its external environment. Describe four parts of the external environment and how they affect businesses.
Answer: Economic conditions affect both the costs of producing a product and consumer perceptions of the product's price and value. The company should encourage and support resellers and help them to sell the product effectively. The government, in the form of local, state, and federal laws, is another important influence on pricing decisions. Social concerns impact pricing, especially when a company's short-term sales, market share, and profit goals may have to be tempered by broader societal considerations.
Diff: 1 Page Ref: 305
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

136) How important is price among the elements of the marketing mix?
Answer: In recent decades, nonprice factors have gained increasing importance. However, price still remains one of the most important elements determining a firm's market share and profitability.
Diff: 2 Page Ref: 290
AACSB: Analytic Skills
Skill: Application
Objective: 10-1

137) Why is price considered to be one of the most flexible elements of the marketing mix?
Answer: Price can be changed quickly.
Diff: 1 Page Ref: 290
AACSB: Analytic Skills
Skill: Application
Objective: 10-1

138) Explain the concept of a price floor.
Answer: A price floor is the lowest price charged at which the company still earns some profits.
Diff: 2 Page Ref: 291
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

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139) Explain the concept of a price ceiling.
Answer: A price ceiling is the highest price charged at which there is still some consumer demand.
Diff: 2 Page Ref: 291
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

140) What must a company using value-based pricing find out about its customers?
Answer: They must determine the specific value that individual buyers assign to different competitive offers.
Diff: 3 Page Ref: 292
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

141) Explain good-value pricing.
Answer: With good-value pricing, a marketer offers just the right combination of quality and good service at a fair price.
Diff: 1 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

142) What must a firm do to retain pricing power?
Answer: To retain pricing power, a firm must retain of build the value of its market offering.
Diff: 2 Page Ref: 293
AACSB: Analytic Skills
Skill: Application
Objective: 10-2

143) What costs make up a product's total cost?
Answer: Fixed costs and variable costs make up total cost.
Diff: 1 Page Ref: 296
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

144) Explain the significance of a downward-sloping experience curve.
Answer: Not only will the company's unit production cost fall, but it will fall faster if the company makes and sells more during a given time period.
Diff: 3 Page Ref: 297
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

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145) A marketer's fixed costs are $400,000, the variable cost is $16, and they expect the product to sell for $24. What is their break-even point in units?
Answer: The break-even point in units is 50,000 units.
Diff: 3 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

146) A marketer's fixed costs are $400,000, the variable cost is $16, and they expect the product to sell for $24. What is their break-even point in dollar sales?
Answer: The break-even point in dollar sales is $1,200,000.
Diff: 3 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

147) A marketer's fixed costs are $400,000, the variable cost is $16, and they expect their product to sell for $24. If the marketer has sales of $1,440,000, what is their profit on this product?
Answer: The profit is $80,000.
Diff: 3 Page Ref: 298
AACSB: Analytic Skills
Skill: Application
Objective: 10-3

148) Who typically sets prices in small companies? In large companies?
Answer: Top management sets prices in small companies, whereas divisional or product line managers typically set prices in large companies.
Diff: 2 Page Ref: 300
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

149) Explain a pure monopoly.
Answer: The market consists of one seller that dominates the market.
Diff: 2 Page Ref: 303
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

150) If demand is elastic, will sellers consider lowering their prices? Explain.
Answer: Yes. A lower price will produce more needed revenue, as consumers will respond to the change in price and buy more.
Diff: 2 Page Ref: 304
AACSB: Analytic Skills
Skill: Application
Objective: 10-4

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